

California Tourism Review of 2004 and Outlook for 2005

Presentation by Tiffany Urness to
16th Annual Southern California Visitor Industry Outlook Conference
November 19, 2004

Significant Events of Recent Years

- 2001 Energy crisis; economic slowdown; 9/11
- 2002 Slow road to recovery; high unemployment; airlines in trouble; dollar weakens
- 2003 Iraq conflict; SARS; elimination of state marketing budget; October fires

Significant Events of 2004

Governor Arnold Schwarzenegger
January adoption of more rigorous entry procedures does NOT deter inbound travel
Record high gas prices do NOT deter domestic travel
Business travel rebounds
Three-year slump in the restaurant industry ends
More air service and lower fares in hotly contested domestic markets

State of the Economy

Modest CA job growth – but best since 2000
Unemployment rates have improved
CA taxable sales up
US GDP expected to show 4.6 % gain
Consumer pessimism “less negative”
Nationally, consumer confidence reached a two-year high in July, but declined in August, September, and October. The overall picture is “average.” A California poll taken before the elections reported that: “consumer pessimism” is “less negative.” The Conference Board described October consumer confidence as reflecting “subdued expectations.”

State of the US Travel Industry

According to the TIA Annual Business Travel Survey, “Most of the travel industry has recovered from 9/11, the weak economy and other world events. More than two-thirds of respondents said their business is back to pre-9/11 levels. And 82% expect an increase in business in 2005.”

Source: TIA, released Friday, Nov 1, 2004.

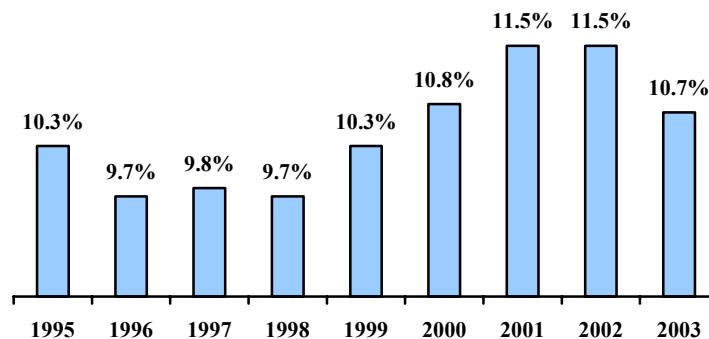
Composition of CA's Overall Travel and Tourism Pie

- 83% of our travel is by in-state residents
- 14% comes from out-of-state
- 3% from international (who nevertheless make up 16% of our travel spending)
- In 2003, total number of person-trips had declined from 2002; – but the percentage breakdown in-state vs out-of-state versus international statistically unchanged.

Market Share and Visitor Volumes

Market Share Trends
(Total California person-trips as percent of total U.S.)

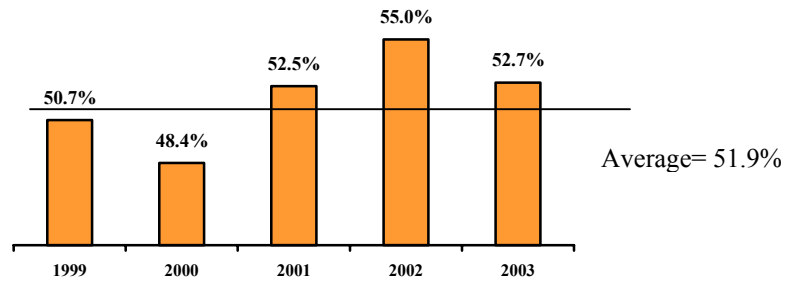
California's market share and total visitor volume declined in 2003, largely due to the sagging business travel sector and a 6.2 % drop in day trips.



Source: DK Shifflet and Associates, Ltd., California Tourism

CA Leisure Day Trips (% of Total California Leisure Travel)

Many factors contributed to a shift to shorter and closer-to-home travel after 9/11 and California Tourism focussed its advertising messages to encourage in-state travel. California saw a spike in day trips in 2002, and the subsequent decline in 2003 was perhaps due to a return to more typical patterns and increased interest in longer trips.



Source: DK Shifflet and Associates, Ltd., California Tourism

CA Leisure Overnight Trips (% of Total California Leisure Travel)

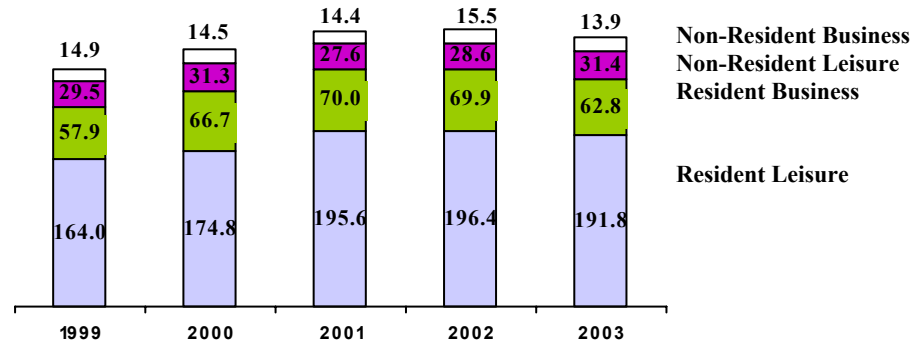
Did overnight trips increase because day trips fell, or vice versa? It is difficult to tell which is the cause and which is the effect. In actual volume, overnight leisure did increase 7.5%, while day leisure fell 6.3%



Source: DK Shifflet and Associates, Ltd., California Tourism

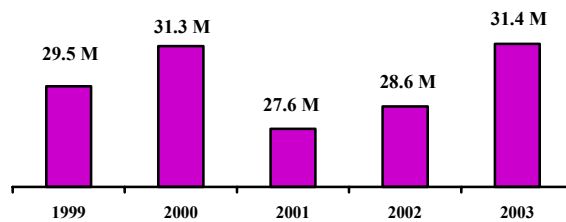
Domestic Travel to and through California by Segment (Millions of person-trips)

In 2003, although leisure travel to and through California by non-residents actually saw positive gains, it was not enough to offset declines in business travel. Leisure travel by California residents.



Source: DK Shifflet and Associates, Ltd.; California Tourism

Non-Resident Leisure to and through California (Millions of person-trips)

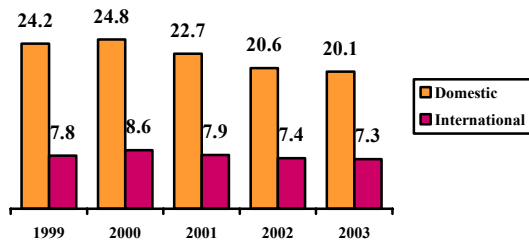


Source: DK Shifflet and Associates, Ltd.; California Tourism

Air Travel

Los Angeles International (Millions of passengers)

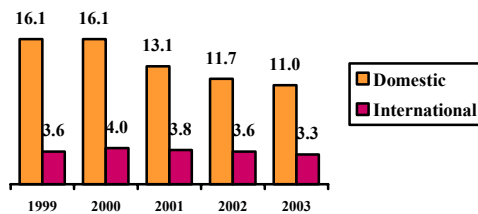
From 2000 to 2003, domestic and international dropped about 18% at LAX.
2004 domestic passenger travel was up 10% through September, int'l up 14.2%



Source: Los Angeles World Airports, Volume of Air Traffic

San Francisco International (Millions of passengers)

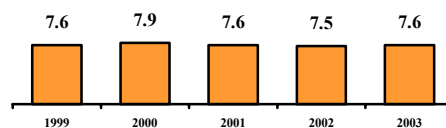
Through August, domestic travel up 15.2%, int'l up 17.6%.



Source: San Francisco Int'l Airport, Comparative Traffic Reports

San Diego Lindberg Field (Millions of passengers)

San Diego's combined domestic and international volumes for 2004 have been at or slightly above 2003 volumes, August YTD up 8.5% overall.



Source: San Diego County Regional Airport Authority

International Visitor Travel

International visitors only account for about 3% of California's total visitor trade, but 13% of the money spent by travelers.

2004 has seen very strong gains from China, Taiwan, Australia, Ireland, New Zealand, Japan and Italy in terms of persons counted at California points of entry – not necessarily traveling within California.

Despite this growth, and even if all of these visitors entering California actually did stay and travel here, it would still not bring us back yet to pre 9/11 levels.

JAPANESE TRAVEL - With the growing number of repeat Japanese travelers, expect to see proportionately more FIT, fewer traveling on packaged tours;

INDIA - -- Britain's three airline giants, British Airways, Virgin Atlantic and BMI (British Midland International) are locked in a battle for rights to fly new services on the lucrative London to India route. (eTurboNews reported Monday - Nov. 15, 2004) India now ranks as California's eighth overseas market, ahead of such countries as Italy, Sweden, and the Netherlands.

CHINA – Australia has identified China as one of its fastest growing markets, with a 42% increase in the first 9 mos of 2004; currently American Airlines, Delta and Continental are working on obtaining approval to launch routes to China, joining United and Northwest. Calif has the largest Chinese-speaking population in the US and is closer to China now – in air hours, because of direct flights from Beijing and Shanghai – than Hawaii. China still has tight controls on who can leave, for what purpose, to what countries, and how much money outbound travelers can exchange. Little by little, they have been easing up. The first year Japan lifted its travel restrictions in 1964, they only had 128,000 outbound travelers. (JATA webpage) China, with restrictions, logged 20 million outbound travelers in 2003, surpassing total Japanese outbound travel. 2002 was 29% above 2001, and 2001 was 15.9% above 2000. (David Shen, TIA Outlook Forum 10/04; WTTC). The number of travelers outbound from China reached 16.0 million in the first seven months of 2004, soaring 63.7 % from the same period last year, the China National Tourism Administration reported 9/16/04.

Accommodations

Our lodging sector has been strong. Comparing average CA occupancy rates to the US overall, California outperformed the US each month for the first seven months of 2004. Through August:

- California (north of San Francisco and Sacramento) up 3.1% through August.
- California Central (Stockton, Modesto, Merced and Yosemite gateway) down 2.2% through August. Visitation to Yosemite itself was down 14% in August

- California South Central (Fresno, Inyo, Kern County) was up 3.4% through August
- Central Coast up 2.3%

Looking to 2005

Airlines will try to increase prices – there is still a lot of competitive pressure keeping them low. That tends to bring in more long-haul travelers, send more Californians out, but the result is a net gain to the state in travel-related spending.

Low airfares and the elimination of the Saturday night requirement will help the business travel recovery. Corporate profits are expected to increase 13.5% this year and next (Cambridge Consumer Credit Index – Oct. 2004; there is still economic uncertainty among businesses as evidenced by inconsistent patterns of new orders and indications that inventories have been kept lean.

Return of international visitors

- Rising imports have created a large trade deficit with the rest of the
- The deficit is driving down the value of the dollar
- No significant improvement in sight = expect weak dollar to continue
- All things equal, strong foreign currencies usually translate to strong inbound travel to the US. Especially good news for us is that the Canadian dollar is now at parity with the US dollar.

Market Niches to Watch

Cruising from West Coast Ports

The cruise line explosion has hit the West Coast: **Disney Cruise Lines** will come to the West Coast for the first time in May 2005 with 12 sailings a year; Already 8 or 9 cruise lines call at the Port of Los Angeles, handling over 1 million passenger debarkations, a 24% increase over 2003; this December alone, 28 ships are expected to call, compared to 11 last December. (Port of Los Angeles)

In **2006**, The Queen Mary 2 will leave the Atlantic Ocean for the first time and offer two cruises from Los Angeles. (Travel Weekly.com, 11/12/04)

“Togetherness”

Cited by James A. Rasulo, President, Walt Disney Parks & Resorts, and Keynote Speaker at the 2004 TIA Marketing Outlook Forum as a growing trend, around which new products and marketing strategies are being developed. Generally refers to gathering a group of family and or friends to take a trip – especially affecting timeshare and vacation condo rentals. Also in this category are the increasingly elaborate and professionally organized family and school reunions, grandparent-grandchildren travel, and “girlfriend travel.”

Traveling with pets

•With people increasingly thinking of pets as family members, a growing segment of the travel industry has become willing to open its doors to four-legged companions. In its 2004 "Traveling With Your Pet," guide, AAA lists more than 12,000 lodgings that accept pets, up 8% from last year--double the increase from the year before. (www.AAAnewsroom.net); As of October 2004, residents of the European Union who want to take their cat, dog or ferret to another EU nation will need special *pet passports*.

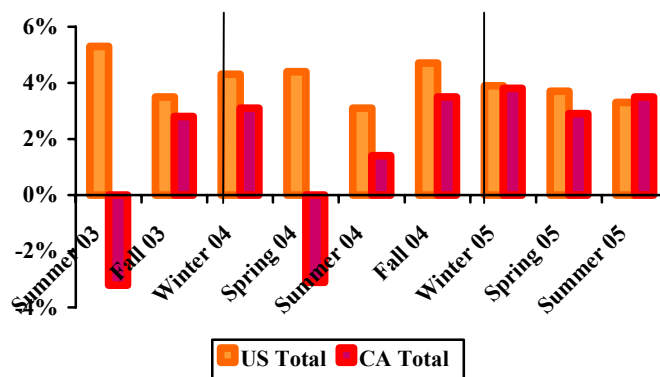
Space Tourism

Yes, it's arrived! The first suborbital flight of Burt Rutan's Space Ship One on June 21 of this year opened a new chapter, not only for the space industry, but also for the global tourism industry, according to a recent study by Futron Corp.(www.futron.com). There could be as many as 200 commercial suborbital rocket flights in 2005, the vast majority for tourism. The same study estimated that, by 2020, 15,000 passengers a year will be taking such flights and that the industry will generate as much as \$800 million annually. (Wall Street Journal, 7/21/04)

Spring and Summer 2005 Forecast for California Travel

California Leisure Travel and Outlook (% change from prior year)

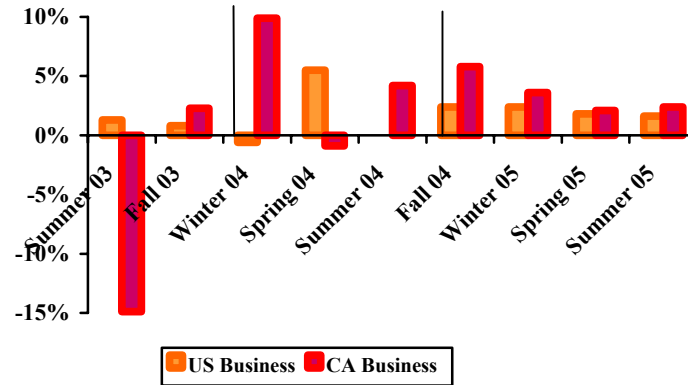
California's recovery has been slower than for the US overall, but we're gaining. Our summer 2005 leisure forecast is: up 3.7% over 2004.



Source: DK Shifflet and Associates, Ltd.

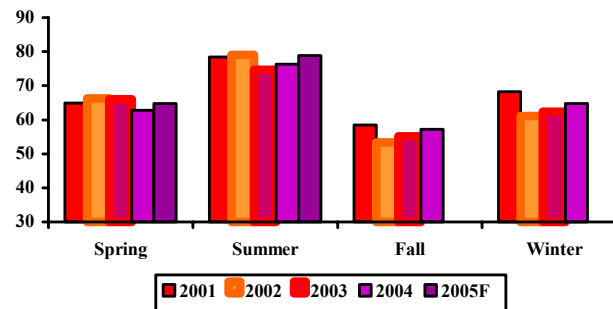
California Business Travel and Outlook (% change from prior year)

In Business Travel, we have actually been doing better than the US this year, and are expected to outpace the rest of the country through Summer 05.



Source: DK Shifflet and Associates, Ltd.

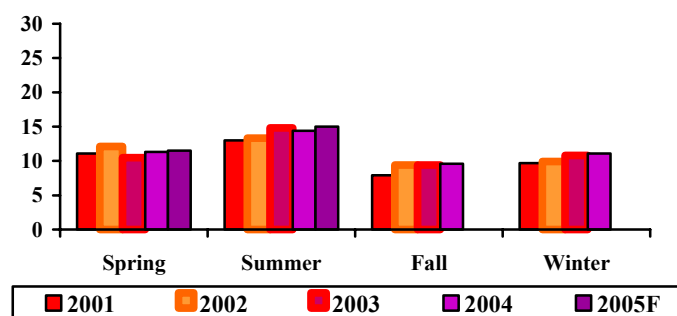
California Resident Travel and Outlook (Millions of person-trips)



Source: DK Shifflet and Associates, Ltd.

California Non-Resident Travel and Outlook (Millions of person-trips)

Non-resident travel will also continue to head upwards, with a forecast for summer 05 of an increase of 3.7% over Summer 2003.



Recap of Forecasts

	Spring '05	Summer '05
Total travel to/thru US	+3.7%	+3.3%
US Business	+1.8%	+1.6%
US Leisure	+4.5%	+3.7%
Total travel to/thru CA	+4.7%	+3.5%
CA Business	+2.1%	+2.4%
CA Leisure	+ 3.2%	+3.7%
CA Resident	+3.1%	+3.4%
CA Non-Resident	+1.9%	+3.7%

Source: DK Shifflet and Associates, Ltd.